



THOMAS, SPEIGHT & NOBLE

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A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' CERTIFICATION REGARDING
LOAN FUND EXPENDITURES

The Board of Directors
Woodruff Electric Cooperative Corporation

During the year ended December 31, 2018, the Cooperative received no short-term or long-term fund advances from CFC on loans controlled by the RUS/CFC Mortgage and Loan Agreement. Based on our review of construction work orders and other plant accounting records created during the year ended December 31, 2018, it is our opinion that CFC loan funds were expended for purposes contemplated in the Loan Agreements on such loans.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
March 15, 2019



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March 15, 2019

To the Board of Directors of
Woodruff Electric Cooperative Corporation
Forrest City, Arkansas

We have audited the financial statements of Woodruff Electric Cooperative Corporation for the year ended December 31, 2018, and have issued our report thereon dated March 15, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Woodruff Electric Cooperative Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts, which is based on historical utility service revenues, historical loss levels and an analysis of the collectability of individual accounts. Management's estimate of depreciation expense, which is based on the estimated useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 15, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Respectfully,

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
March 15, 2019

Woodruff Electric Cooperative Corporation

Audited Financial Statements

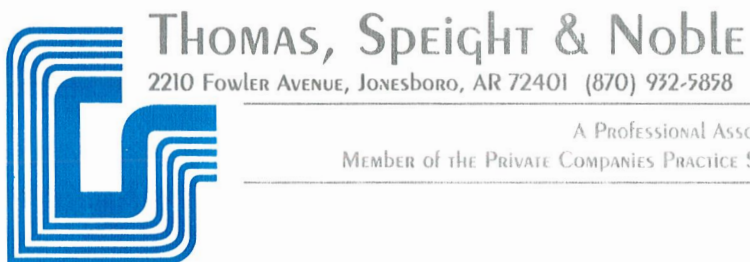
For the Years Ended December 31, 2018 and 2017

Thomas, Speight & Noble
Certified Public Accountants
2210 Fowler Avenue
Jonesboro, Arkansas 72401
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Woodruff Electric Cooperative Corporation
Forrest City, Arkansas

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1 - 2
Balance Sheets.....	3 - 4
Statements of Revenues and Patronage Capital.....	5
Statements of Cash Flows.....	6 - 7
Notes to the Financial Statements.....	8 - 15
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17
Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Electric Borrowers.....	18 - 19



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A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodruff Electric Cooperative Corporation
Forrest City, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Woodruff Electric Cooperative Corporation (a nonprofit corporation), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Woodruff Electric Cooperative Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Woodruff Electric Cooperative Corporation, as of December 31, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019, on our consideration of Woodruff Electric Cooperative Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Woodruff Electric Cooperative Corporation's internal control over financial reporting and compliance.

Thomas. Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

March 15, 2019

Woodruff Electric Cooperative Corporation

Balance Sheets

December 31, 2018 and 2017

	2018	2017
ASSETS		
Electric plant:		
In service, at cost	\$ 175,589,815	\$ 175,538,683
Construction work in progress	3,506,128	3,957,115
Total electric plant	179,095,943	179,495,798
Less: accumulated depreciation	(35,143,856)	(37,836,061)
Net electric plant	143,952,087	141,659,737
Other property and investments:		
Investments in associated organizations	18,482,776	18,539,727
Other investments	131,609	136,308
Total other property and investments	18,614,385	18,676,035
Current assets:		
Cash - general funds	828,258	744,140
Cash - temporary investments	7,032,764	7,604,234
Accounts receivable - consumers (Less: provision for uncollectible accounts of \$71,295 in 2018 & \$11,020 in 2017)	3,112,212	2,515,893
Accrued unbilled revenue	479,791	485,325
Materials & supplies, at average cost	1,285,845	1,189,717
Interest receivable	30,728	27,854
Prepaid expenses	324,690	320,236
Total current assets	13,094,288	12,887,399
Deferred Charges:	849,206	1,252,948
TOTAL ASSETS	\$ 176,509,966	\$ 174,476,119

The accompanying notes are an integral part of these financial statements.

Woodruff Electric Cooperative Corporation

Balance Sheets

December 31, 2018 and 2017

	2018	2017
EQUITIES & LIABILITIES		
Equities:		
Memberships	\$ 206,255	\$ 206,860
Patronage capital	76,614,340	71,619,847
Donated capital	2,702,022	2,602,860
Total equities	79,522,617	74,429,567
Long term debt:		
RUS mortgage notes	-	-
Less: payments unapplied	(11,195,227)	(4,482,504)
CFC mortgage notes	13,775,891	14,690,994
FFB notes	72,878,261	67,173,823
CoBank notes	14,845,770	15,918,902
	90,304,695	93,301,215
Less: current maturities	(3,832,338)	(3,792,330)
Total long term debt	86,472,357	89,508,885
Current liabilities:		
Current maturities of long-term debt	3,832,338	3,792,330
Accrued pensions & benefits	51,359	56,058
Accounts payable - purchased power	1,835,217	1,933,698
Accounts payable - other	431,309	706,637
Consumer deposits	1,558,033	1,529,496
Accrued interest	128,916	134,545
Accrued taxes	1,456,812	1,348,862
Accrued compensated employee absences	170,360	164,158
Patronage capital payable	1,050,648	871,883
Total current liabilities	10,514,992	10,537,667
TOTAL EQUITIES & LIABILITIES	\$ 176,509,966	\$ 174,476,119

The accompanying notes are an integral part of these financial statements.

Woodruff Electric Cooperative Corporation

Statements of Revenues and Patronage Capital

For Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES	<u>\$ 50,101,951</u>	<u>\$ 42,144,892</u>
Operating expenses:		
Cost of power	24,267,033	23,593,479
Transmission - maintenance	25,590	24,446
Distribution - operation	4,597,270	4,015,775
Distribution - maintenance	2,899,967	2,832,776
Consumer accounts expenses	1,084,297	1,041,327
Customer services & information	315,370	304,116
Administrative & general expense	3,006,156	2,767,639
Depreciation	5,294,358	5,005,922
Taxes	1,074	1,054
Total operating expenses	<u>41,491,115</u>	<u>39,586,534</u>
OPERATING MARGINS BEFORE FIXED CHARGES	<u>8,610,836</u>	<u>2,558,358</u>
Fixed charges:		
Interest on long-term debt	3,918,181	4,090,483
Interest expense - other	99,336	4,701
Other deductions	16,195	12,700
Total fixed charges	<u>4,033,712</u>	<u>4,107,884</u>
OPERATING MARGINS AFTER FIXED CHARGES	4,577,124	(1,549,526)
G & T and other capital credits	<u>1,838,224</u>	<u>1,856,491</u>
NET OPERATING MARGINS	<u>6,415,348</u>	<u>306,965</u>
Non-operating margins:		
Interest income	589,644	585,431
Other non-operating income/(expense)	(567,027)	51,909
Total non-operating margins	<u>22,617</u>	<u>637,340</u>
NET MARGINS FOR YEAR	6,437,965	944,305
PATRONAGE CAPITAL - BEGINNING OF YEAR	71,619,847	71,823,707
Retirement of capital credits	(1,443,472)	(1,148,165)
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 76,614,340</u>	<u>\$ 71,619,847</u>

The accompanying notes are an integral part of these financial statements.

Woodruff Electric Cooperative Corporation

Statements of Cash Flows

For Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from consumers	\$ 49,511,166	\$ 42,712,818
Cash paid to suppliers & employees	(36,574,186)	(34,856,910)
Interest received	19,743	673,618
Interest paid	(4,023,146)	(4,108,742)
Taxes collected/(paid)	92,425	(28,342)
Net cash provided from/(used in) operating activities	9,026,002	4,392,442
Cash flows from investing activities:		
Construction & acquisition of plant	399,857	(6,887,779)
Plant retirement and related removal cost	(8,007,324)	(3,362,897)
Materials salvaged & other	20,760	32,051
Investments in associated organizations	1,895,175	1,813,142
Investments - other	4,699	(10,608)
(Increase)/Decrease in:		
Materials inventory	(96,128)	96,357
Deferred charges - workplan	18,418	(10,679)
Deferred charges - right-of-way	81,590	(16,079)
Deferred charges - inventory adjustments	233,950	(41,970)
Deferred charges - asset disposal	25,089	(39,347)
Deferred charges - GIS mapping	44,693	44,693
Net cash provided from/(used in) investing activities	(5,379,221)	(8,383,116)
Cash flows from financing activities:		
Retirements of patronage capital credits	(1,443,472)	(1,148,165)
Donated capital	99,162	129,316
Payments on RUS debt	-	-
(Increase)/decrease in RUS prepayments	(6,712,723)	3,816,060
Payments on CFC debt	(915,103)	(996,782)
FFB loan advances	7,500,000	-
Payments on FFB debt	(1,795,562)	(1,727,421)
Payments on CoBank debt	(1,073,132)	(1,251,225)
Increase/(Decrease) in:		
Consumer deposits	28,537	110,411
Memberships issued	(605)	630
Patronage capital payable	178,765	33,297
Net cash provided from/(used in) financing activities	(4,134,133)	(1,033,879)
Net Increase/(Decrease) in cash	(487,352)	(5,024,553)
Cash & Equivalents - Beginning of Year	8,348,374	13,372,927
Cash & Equivalents - End of Year	\$ 7,861,022	\$ 8,348,374

The accompanying notes are an integral part of these financial statements.

Woodruff Electric Cooperative Corporation

Statements of Cash Flows

For Years Ended December 31, 2018 and 2017

Reconciliation of Net Margins to Net Cash Provided by Operating Activities

	2018	2017
Net Margins	<u>\$ 6,437,965</u>	<u>\$ 944,305</u>
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	5,294,358	5,005,922
G&T and other capital credits (non-cash)	(1,838,224)	(1,856,491)
(Increase)/Decrease in:		
Accounts receivable	(596,319)	476,611
Prepaid expenses	(4,454)	(110,723)
Interest receivable	(2,873)	36,278
Unbilled revenues	5,534	91,315
Increase/(Decrease) in:		
Accounts payable	(373,809)	(144,243)
Accrued compensated absences	1,503	(2,748)
Accrued interest expense	(5,629)	(13,558)
Accrued taxes	107,950	(34,224)
Total Adjustments	<u>2,588,037</u>	<u>3,448,137</u>
Net Cash Provided by Operating Activities	<u>\$ 9,026,002</u>	<u>\$ 4,392,442</u>

The accompanying notes are an integral part of these financial statements.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS).

Electric Plant, Maintenance & Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items, generally over \$1,000. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Inventories

Materials and supplies inventories are valued at average unit cost.

Accounts Receivable

Accounts receivable are stated net of the allowance for doubtful accounts provision which is estimated by management. Management reviews accounts receivable and establishes an allowance for doubtful accounts based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All accounts or portions thereof deemed to be uncollectible are written-off to the allowance for doubtful accounts in the period that determination is made.

Electric Revenues

The Cooperative's operating revenues are under the jurisdiction of the Arkansas Public Service Commission.

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is accrued for power delivered but not billed at the end of each year.

The Cooperative's tariffs for electric service include a power cost adjustment factor under which electric rates charged to customers are adjusted to reflect changes in the cost of power.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash and temporary cash investments with a maturity of three months or less when purchased to be cash equivalents.

Group Concentrations of Credit Risk

The Cooperative's headquarters is located in Forrest City, Arkansas. Its service area includes portions of several counties surrounding the city. The cooperative requires a deposit from its members which is applied to unpaid bills in the event of default.

Cost of Purchased Power

Power costs are recognized during the month of the consumption.

Income Taxes

The Cooperative operates under the Internal Revenue Code, Section 501 (c) (12), as a tax-exempt cooperative. Accordingly, no provision for income taxes has been made in the financial statements. The Cooperative's form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the IRS for the years ending 2015, 2016, 2017, and 2018, generally for three years after they were filed.

Patronage Capital & Margins

Woodruff Electric Cooperative Corporation operates under the cooperative form of organization. As provided in the bylaws, an excess of revenues over expenses from operations is treated as advances of capital by the patrons and credited to each of them on an individual basis.

The Cooperative allocates both operating and non-operating margins to patrons.

Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 30 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited, generally, to 25 percent of the patronage capital or margins received in the next preceding year. As of December 31, 2018 and 2017, the total equities approximate 45.1 and 42.6 percent of total assets, respectively.

There were declared capital credits retirements in 2018 and 2017 in the amounts of \$1,443,472 and \$1,148,165, respectively.

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the capital furnished by Arkansas Electric Cooperative Corporation through payment of power bills. The capital is recorded in the year notification of the capital allocation is received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses at the date of the financial statements. Actual results could differ from those estimates.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Woodruff Electric Cooperative Corporation accrues paid leave (paid time off) based on the actual hours worked by employees throughout the year. Employees may carry a balance of up to 520 accrued sick leave hours to a subsequent year. Employees may carry a balance of up to 120 accrued vacation hours to a subsequent year.

Accrued compensated employee absences are recognized as current liabilities on the balance sheets for December 31, 2018 and 2017.

Advertising

Woodruff Electric Cooperative Corporation expenses advertising costs as they are incurred. The advertising costs expensed for the years ended December 31, 2018 and 2017 were \$174,469 and \$174,709, respectively.

NOTE 2: ASSETS PLEDGED

Substantially all assets are pledged as security for long-term debt to RUS, CFC and CoBank.

NOTE 3: ELECTRIC PLANT & DEPRECIATION PROCEDURES

Listed below are the major classes of the electric plant as of December 31, 2018 and 2017:

	2018	2017
Distribution Plant	\$ 143,885,567	\$ 142,501,615
Transmission Plant	3,177,915	3,177,915
General Plant	28,526,333	29,859,153
Electric Plant in Service	175,589,815	175,538,683
Construction Work in Progress	3,506,128	3,957,115
Total Plant	\$ 179,095,943	\$ 179,495,798

Provision has been made for depreciation of transmission plant at a straight-line composite rate of 2.75% per annum. Provision has been made for depreciation of distribution plant at straight-line rates of 2.75% to 6.67% per annum.

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structure & Improvements	2.0%
Office Furniture & Equipment	7.0%
Transportation Equipment	17.0%
Power Operated Equipment	16.0%
Other General Plant	6.0%
Communication Equipment	5.0%
Data Processing Equipment	20.0%

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to \$5,294,358 and \$5,005,922, respectively.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 4: INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Capital Term Certificates of the National Rural Utilities Cooperative Finance Corporation (NRUCFC)	\$ 1,457,536	\$ 1,467,713
Capital Credit Certificates of the National Rural Utilities Finance Corporation (NRUCFC)	706,042	670,719
Capital Credit Certificates of the Arkansas Electric Cooperatives (AEC, Inc. & AECC)	15,592,118	15,700,447
Federated Rural Electric Corporation Subscriber Equity Account	390,057	374,128
Outstanding Dividend Declarations Arkansas Rural Electric Self Insurance Trust	55,862	86,958
Equity Patronage CoBank	274,060	233,660
Other Equities & Membership Fees in Various Organizations	<u>7,101</u>	<u>6,102</u>
Total	<u><u>\$ 18,482,776</u></u>	<u><u>\$ 18,539,727</u></u>

NOTE 5: OTHER INVESTMENTS

Other investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Other Special Funds-Deferred Comp	\$ 51,359	\$ 56,058
Special (Emergency) Fund CDs	80,000	80,000
Membership in Augusta Industrial Dev. Corporation	<u>250</u>	<u>250</u>
Totals	<u><u>\$ 131,609</u></u>	<u><u>\$ 136,308</u></u>

NOTE 6: CASH & TEMPORARY INVESTMENTS

Cash and cash equivalents and temporary investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 828,258	\$ 744,140
Note receivable - Arkansas Electric Coop. Corp.	<u>7,032,764</u>	<u>7,604,234</u>
	<u><u>\$ 7,861,022</u></u>	<u><u>\$ 8,348,374</u></u>

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 6: CASH & TEMPORARY INVESTMENTS (CONTINUED)

Arkansas Electric Cooperative Corporation is an associated organization and power provider for Woodruff Electric Cooperative Corporation. Monthly power purchases are paid from this note account. The note is interest bearing, uninsured, and payable on demand.

Cash – general funds are with local financial institutions and are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Cooperative monitors these accounts to insure all funds on deposit are below the FDIC insurance limit; however, there may be brief intervals when funds exceed the FDIC limit before transfers are made.

At December 31, 2018, the carrying amount of the Cooperative's deposits with financial institutions was \$828,258, and the bank balances were \$1,296,502, resulting in uninsured deposits of \$777,175. The differences represent outstanding checks and deposits in transit.

NOTE 7: DEFERRED CHARGES

Following is a summary of amounts recorded as deferred charges as of December 31:

	2018	2017
Long-range work plan	\$ -	\$ 10,413
Asset disposal	25,313	50,402
GIS mapping	633,153	677,846
Miscellaneous	190,740	514,287
Total	<u>\$ 849,206</u>	<u>\$ 1,252,948</u>

NOTE 8: PATRONAGE CAPITAL

Patronage capital consisted of the following at December 31:

	2018	2017
Assignable	\$ 6,437,965	\$ 944,305
Assigned	70,176,375	70,675,542
Total	<u>\$ 76,614,340</u>	<u>\$ 71,619,847</u>

NOTE 9: RUS Mortgage Notes

Long-term debt is represented by mortgage notes payable to the United States of America. All notes are for 35 years. The Cooperative had cushion of credit advance payments with RUS at December 31, 2018 and 2017 of \$11,195,227 and \$4,482,504, respectively.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 10: CFC MORTGAGE NOTES

Supplemental long-term financing through CFC consists of the following:

Interest	Matures	Current P & I Installments	Balance December 31, 2018	2017
6.200%	3/1/2018	\$46,284/quarter	\$ -	\$ 45,578
6.550%	12/1/2020	\$19,724/quarter	146,772	213,309
3.500%	6/1/2023	\$14,024/quarter	215,480	258,947
3.500%	6/1/2023	\$17,343/quarter	266,476	320,229
6.700%	3/1/2027	\$17,810/quarter	448,700	488,209
6.700%	3/1/2027	\$30,388/quarter	765,597	833,010
4.050%	11/30/2029	\$24,616/quarter	778,100	833,196
4.050%	11/30/2029	\$29,049/quarter	918,209	983,225
5.000%	2/28/2033	\$78,480/quarter	3,185,752	3,335,670
5.000%	2/28/2033	\$79,498/quarter	3,227,099	3,378,963
5.200%	2/28/2033	\$95,394/quarter	3,823,706	4,000,658
			<u>\$ 13,775,891</u>	<u>\$ 14,690,994</u>

As of December 31, 2018, there was \$26,000,000 in available line of credit funds to the Cooperative.

NOTE 11: FFB NOTES

Supplemental long-term financing through FFB consist of the following:

Interest	Matures	Installments	2018	2017
4.838%	12/31/2036	\$91,816/qtrly	\$ 4,397,013	\$ 4,548,160
5.062%	12/31/2036	\$78,610/qtrly	3,700,090	3,824,342
4.383%	12/31/2036	\$43,869/qtrly	2,176,858	2,255,303
4.872%	12/31/2036	\$95,739/qtrly	4,572,833	4,729,469
4.178%	12/31/2042	\$140,474/qtrly	8,489,252	8,693,112
4.152%	12/31/2042	\$70,004/qtrly	4,241,633	4,343,861
3.490%	12/31/2042	\$64,859/qtrly	4,205,137	4,316,206
3.750%	12/31/2042	\$81,598/qtrly	5,150,362	5,281,614
2.401%	1/2/2046	\$66,955/qtrly	5,310,043	5,448,995
2.945%	1/2/2046	\$72,206/qtrly	5,366,315	5,495,600
2.689%	1/2/2046	\$91,816/qtrly	5,534,049	5,672,687
2.316%	1/2/2046	\$75,737/qtrly	6,068,766	6,229,617
2.094%	1/2/2046	\$74,888/qtrly	6,165,910	6,334,857
2.923%			7,500,000	-
			<u>\$ 72,878,261</u>	<u>\$ 67,173,823</u>

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 12: COBANK NOTES

Supplemental long-term financing through CoBank consist of the following:

Interest	Matures	Installments	2018	2017
3.810%	3/31/2027	Fixed/monthly	\$ 3,602,379	\$ 4,237,852
5.560%	7/30/2034	Fixed/monthly	11,243,391	11,681,050
			<u>\$ 14,845,770</u>	<u>\$ 15,918,902</u>

As of December 31, 2018, there was \$5,000,000 in available line of credit funds to the Cooperative.

NOTE 13: CURRENT MATURITIES OF LONG-TERM DEBT

As of December 31, annual maturities of long-term debt were as follows:

	CFC	FFB	CoBank	Total
2019	\$ 914,482	\$ 1,882,633	\$ 1,035,223	\$ 3,832,338
2020	961,848	2,058,655	1,078,767	4,099,270
2021	930,903	2,114,095	1,004,904	4,049,902
2022	978,072	2,210,628	1,059,782	4,248,482
2023	969,345	2,296,577	986,016	4,251,938
Thereafter	9,021,241	62,315,673	9,681,078	81,017,992
	<u>13,775,891</u>	<u>72,878,261</u>	<u>14,845,770</u>	<u>101,499,922</u>
Prepayment		(11,195,227)		(11,195,227)
	<u>\$ 13,775,891</u>	<u>\$ 61,683,034</u>	<u>\$ 14,845,770</u>	<u>\$ 90,304,695</u>

NOTE 14: PENSION PLAN

The retirement Security Plan (RS Plan), sponsored by the National Rural Electric Cooperative Association (NRECA), is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Woodruff Electric Cooperative Corporation's contributions to the RS Plan in 2018 and in 2017 represented less than 5 percent of the total contributions made to the plan by all participating employers. Woodruff Electric Cooperative Corporation made contributions to the plan of \$1,533,410 in 2018 and \$1,548,304 in 2017. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

Woodruff Electric Cooperative Corporation
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 14: PENSION PLAN (CONTINUED)

For the RS plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2018 and over 80 percent funded on January 1, 2017 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The Cooperative also maintains a 401(k) plan for its employees. In this plan, the Cooperative matches up to 5% of the eligible wages of eligible contributing employees.

Pension expense for the years ended December 31, 2018 and 2017 amounted to \$241,505 and \$242,603, respectively for this plan.

NOTE 15: CONTINGENCIES

The Cooperative may, from time to time, be named as defendant in certain lawsuits or legal actions in the normal course of business. At the date of these financial statements, management is not aware of any such actions that would have a material impact upon the Cooperative’s financial condition.

The Cooperative has a pending litigation that was initiated in a prior year. The Cooperative’s legal counsel believes that the Cooperative’s exposure on an adverse judgment would be less than \$150,000. The amount is considered to be immaterial and is therefore not recognized in the financial statements.

The Cooperative’s legal counsel considers the claim to be reasonably possible, and the Cooperative has filed a motion for summary judgment. No provision has been recognized in these financial statements as the Cooperative’s management does not consider it probable that a loss will arise.

NOTE 16: COMMITMENTS

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from Arkansas Electric Cooperative Corporation until January, 2042. The rates paid for such purchases are subject to review and approval by the Arkansas Public Services Corporation.

NOTE 17: EVALUATION OF SUBSEQUENT EVENTS

The Woodruff Electric Cooperative Corporation’s management has evaluated subsequent events through March 15, 2019, the date which the financial statements were available to be issued.



THOMAS, SPEIGHT & NOBLE

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A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Woodruff Electric Cooperative Corporation
Forrest City, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Woodruff Electric Cooperative Corporation (a nonprofit corporation), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Woodruff Electric Cooperative Corporation's basic financial statements, and have issued our report thereon dated March 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Woodruff Electric Cooperative Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Woodruff Electric Cooperative Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Woodruff Electric Cooperative Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Woodruff Electric Cooperative Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas. Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
March 15, 2019



THOMAS, SPEIGHT & Noble

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A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS

To the Board of Directors
Woodruff Electric Cooperative Corporation
Forrest City, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Woodruff Electric Cooperative Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenue and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019, on our consideration of Woodruff Electric Cooperative Corporation's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Woodruff Electric Cooperative Corporation failed to comply with the terms, covenants, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Woodruff Electric Cooperative Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Woodruff Electric Cooperative Corporation's accounting and records to indicate that Woodruff Electric Cooperative Corporation did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electrical system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Jonesboro, Arkansas
March 15, 2019